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¶1. (U) Summary. This is Volume 9, issue 7 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Budget 2009 - Finance Minister Cushions the Blow
- Factories Put in Worst Performance in a Decade
- Trade Conditions Survey Shows Cautious Improvement
- Transnet Re-Issues Locomotive Tender to Three Bidders
- Second Transnet Executive Announces Departure
- Department of Minerals and Energy to Split
- Anglo Platinum to Cut 10,000 Jobs
- Manuel Acknowledges Environmental Issues in Budget Speech

End Summary.

Budget 2009 - Finance Minister Cushions the Blow

¶2. (U) Finance Minister Trevor Manuel announced in his 2009-10 budget speech before Parliament that government plans to aid state-owned utility company Eskom, the embattled mining industry, and struggling national airline South African Airways (SAA) by extending support worth billions at a time when the economy is suffering a dramatic slowdown. Government had undertaken to provide Eskom with a guarantee of R176 billion ($17.7 billion) for its massive financial R343 billion ($34.4 billion) infrastructure investment program, announced Manuel. The guarantee would help to lower the cost of borrowing for the utility in the tight capital market. He also signaled a delay in the introduction of the mining royalties tax regime from April to next year, in effect giving the mining industry tax relief of R1.8 billion ($180.9 million), which he noted would assist in minimizing job losses. SAA would receive R1.6 billion ($161 million) to support its turnaround strategy and bolster its financial sustainability. The economy was expected to grow only 1.2% this year, Manuel predicted, but would strengthen to 3% in 2010 and 4% in 2011. He commented that trading conditions are tough and are likely to deteriorate further in the short-term. Manual did not offer a direct fiscal stimulus package, but his budget was an expansionary, counter-cyclical instrument with incentives to industry and support to the poor. "Policy adjustments need to reinforce macroeconomic stability in the context of a

deteriorating international environment and provide a temporary cushion to the domestic economy," Manuel explained. The budget review added that "a lower tax burden combined with strong growth in public spending signals a strong fiscal stimulus to the economy over the period ahead." (Business Day, February 11, 2009)

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Factories Put in Worst Performance in a Decade
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¶3. (U) Factory output plunged at its fastest pace in a decade in December as demand for exports fell, backing the case for more aggressive interest rate cuts to protect South Africa from the global recession. Manufacturing declined by 7% compared to December 2007, its biggest fall since October 1998. The figures show South Africa's manufacturing sector is in a deepening recession, and likely to have restrained overall growth in the fourth quarter of last year. "It looks pretty disappointing," said ETM Economist George Glynos. "The numbers suggest we are looking at a downturn far
QGeorge Glynos. "The numbers suggest we are looking at a downturn far
more severe than many private sector economists have picked up." Nedbank Chief Economist Dennis Dykes speculated, "I think what we are starting to see now is the dual effect of the slowdown domestically and on top of that the delayed effects of what has happened internationally coming through." Motor manufacturing had been hit by a double whammy because both local and export demand have slowed. Industries such as iron and steel were also hard hit. It was likely that the economy shrank in the fourth quarter. "The retail sector is under pressure. Mining will be down. Even prior to this number we were predicting a small decline in GDP in the fourth quarter and now it looks a certainty," Dykes warned. (Business Day, February 11, 2009)

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Trade Conditions Survey Shows Cautious Improvement

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¶4. (U) The Trade Activity Index (TAI) improved in January, announced the South African Chamber of Commerce and Industry (SAACI). The TAI measures current trade conditions. This is the first time the TAI has improved since October, SAACI reported in its latest monthly Trade Conditions Survey. SAACI cautioned that the trade environment is still uncertain, but said that January showed improvements in current sales volumes and new orders. An improvement in household spending stimulated by lower interest rates should assist a recovery in the trade environment, which was currently being weighed down by low economic expectations, SAACI noted. The Trade Expectations Index (TEI), which surveyed trade conditions six months ahead, also improved in January. The improvements in the outlook for trade may be attributable to recent monetary policy easing and anticipated further relief in the course of 2009. (Engineering News, February 10, 2009)

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Transnet Re-Issues Locomotive Tender to Three Bidders
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¶5. (U) State-controlled transport logistics group Transnet has reportedly invited only three international original equipment manufacturers (OEMs) to bid to supply 100 diesel locomotives. The tender was issued recently following Transnet's decision to withdraw an earlier tender for 212 diesel locomotives. The initial tender was issued on September 2006. U.S.-based Electromotive Diesel (EMD) was named as the preferred bidder for the R6 billion ($598.5 million) agreement to supply 212 trains in August 2007. However, Transnet Spokesperson John Dludlu confirmed that a new "confined tender" had been issued and would close on February 17. He did not confirm the names of those OEMs invited to participate, but Engineering News has established that EMD, GE Transportation, and Siemens all received the tender documentation. Dludlu said the 100 locomotives will be deployed primarily for use by its general freight business, but declined to disclose further details until after the adjudication and evaluation processes are completed. It is understood that Transnet will seek to ensure that a portion of

the value of the contract is placed with South African industrial suppliers. It is also believed that the 100 locomotives purchase program is viewed by the utility as part of a larger recapitalization of Transnet Freight Rail, which could position the winning OEM strongly to supply into subsequent tenders. The decision to reissue the tender is also in line with an earlier indication given by Transnet that it is hoping to pursue a "more commercial approach" to the acquisition of new traction power, in light of the "breathing space" created by the slowdown in the international and domestic economies. (Engineering News, February 9, 2009)

Second Transnet Executive Announces Departure

¶6. (U) Transnet Chief Operation Officer Louis van Niekerk has announced that he plans to leave the state-controlled transport Qannounced that he plans to leave the state-controlled transport logistics group at the end of March. Transnet CEO Maria Ramos had announced her resignation last November and would depart at the end of February. Van Niekerk joined Transnet in 2005 soon after Ramos took over. He had been asked to join Transnet to assist with a far-reaching re-engineering and asset recapitalization plan. Transnet spokesperson John Dludlu did not indicate whether a replacement would be sought for Van Niekerk, or whether any other senior executives were contemplating resignation. Dludlu was also unable to provide an update on finding a replacement for Ramos, who would be taking over as CEO at banking group Absa on March 1. (Engineering News, February 9, 2009)

Department of Minerals and Energy to Split

¶7. (U) South Africa's Minister of Minerals and Energy Buyelwa Sonjica expects her department to be split into two separate ministries if the ruling African National Congress wins the April 22 election. Sonjica said both energy and minerals were vital to the country's economy and having two separate ministries would allow

more time and energy to be devoted to each. "Both energy and minerals are very complex ... it makes sense if the two very important sectors of the economy would be given separate focus; it can only improve performance," Sonjica remarked. Mining experts expect the new Energy Ministry to be responsible for implementing a clear energy strategy, while the Mines Ministry would have more scope to tackle issues still unresolved many years after the 1994 Mining Charter. Such issues would include ensuring a genuine transfer of more control of the mining industry and the export of mined commodities to black management and ownership. (Reuters, February 10, 2009)

Anglo Platinum to Cut 10,000 Jobs

¶8. (U) Anglo Platinum (Angloplat) would cut about 8,000 contractor jobs and shed another 2,000 posts this year through natural attrition, but would do what it could to avoid laying-off permanent employees, CEO Neville Nicolau announced. Angloplat is the world's largest platinum producer. The decision to lay off workers follows the collapse in commodities prices. Permanent job cuts could be inevitable if prices continued to fall, Nicolau warned. Nicolau expected platinum would average about $1,000/oz this year, assuming a market in balance or slight deficit. There could be a slight improvement at the end of the year, he said, although it was difficult to forecast when prices would recover. Angloplat was trying to create sufficient flexibility in its operations to be able to ramp production up or down in response to market conditions. Every mine had to be profitable, Nicolau commented. Those that were posting losses would be fixed, sold, or closed. (Business Day, February 10, 2009)

Manuel Acknowledges Environmental Issues in Budget Speech

¶9. (U) Finance Minister Trevor Manuel proposed introducing incentives for company investment in energy-efficient equipment during his February 11 budget speech. Such incentives would take the form of a supplementary depreciation allowance. Manuel encouraged South African companies to take advantage of the Kyoto Protocols' clean development mechanism (CDM), and commented that the National Treasury would introduce a favorable tax treatment for the recognition of income derived from the sale of emission reductions through the CDM mechanism. The Minister also noted that the tax on plastic shopping bags would be increased from 3 cents to 4 cents. (www.treasury.gov.za, February 12, 2009)